

VITALITY HEALTH LIMITED

Annual Report and Financial Statements  
For the year ended 30 June 2022



**Vitality Health Limited**

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**Validity Health Limited**

**DIRECTORS AND OFFICERS**

**Directors in office at the date of signing the financial statements**

Neville Koopowitz

Ayanda Ntsaluba

Sebastian Coe\*

Andrew Crossley\*

Rosemary Hilary\*

Nicholas Caplan\*

Monty Hilkowitz\*\*

Alastair Lyons\*

Joanne Shaw\*

Keith Klintworth

David Hare \*

Michael Saunders (resigned 15 October 2021)

Justin Skinner (appointed 16 February 2022)

\*Independent non-executive

\*\* Non-executive

The appointment of directors is not subject to retirement by rotation.

**Company Secretary at the date of signing the financial statements**

Jennifer Thorn

**Registered office**

3 More London Riverside  
London  
SE1 2AQ

**Registered number**

05051253

**Independent auditors**

KPMG LLP  
Chartered Accountants and Statutory Auditors  
15 Canada Square  
London  
E14 5GL

## Vitality Health Limited

### STRATEGIC REPORT

The Directors present their Strategic report, Report of the Directors and the audited financial statements for the year ended 30 June 2022.

Vitality Health Limited ("the Company", "VHL") is a private company limited by shares, incorporated and domiciled in the United Kingdom ("UK"). The Company is one of eight companies that, along with the holding company, make up the Discovery Holdings Europe Limited ("DHEL") group of companies ("Vitality", "Vitality Group", "the Group"). Within Vitality there are four business units, "VitalityHealth", "VitalityLife", "VitalityInvest" and "VitalityCar". References made to the Group Board refer to the DHEL Board.

#### Principal activities and business review

The principal activity of the Company is the undertaking of general insurance business in the United Kingdom, particularly the provision and administration of private medical insurance and other health insurance products trading as VitalityHealth.

At the centre of the business is our core purpose: to make people healthier and enhance and protect their lives. This is delivered through a Shared Value Insurance model. Recognising that in modern society health risk is primarily driven by lifestyle behaviours, Vitality believes that through incentivising healthier behaviours from its members, and providing them with the tools to make positive changes in their lives, it can deliver value on multiple fronts. As an insurer, Vitality benefits from reduced claims from a healthier member base; Vitality members benefit from improved health, access to a wide range of partners and rewards, and potentially lower insurance premiums; while society benefits from a more healthy and productive population.

Vitality delivers Shared Value by helping members to understand their health, removing barriers to get healthy, and rewarding them for making healthy lifestyle choices. The model is underpinned by significant actuarial, behavioural and clinical science, which informs the product and member approach. A key part of this is the provision of discounted access to a broad network of health and wellness partners, which includes prominent brands such as Apple, Waitrose, Virgin Active, Garmin, Peloton and Mindful Chef, as well as incentives that reward members for engaging in health-enhancing activities such as Odeon, Vue, Caff  Nero, Amazon, and American Express.

The Company is regulated by both the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The Company is subject to the UK Solvency II regime, which is an insurance regulatory regime which prescribes capital requirement and asset / liability valuation standards for assessing regulatory solvency. The Company's Solvency II capital position is outlined in note 4 (h).

The profit before tax for the financial year ended 30 June 2022 was £64,340k (2021: £39,149k). The net assets of the Company as at 30 June 2022 were £358,161k (2021: £325,417k).

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. Towards the end of March 2020, healthcare activity significantly reduced, and has fluctuated since. While vaccination and other measures have significantly mitigated the impact of COVID-19, the pandemic has had an impact on the operating costs, workforce, and capacity of the UK healthcare system.

Furthermore, the presence of COVID-19 remains keenly felt – for the 7 days to 1<sup>st</sup> of July 2022, over 1,500 people were admitted to hospital in England per day, on average, with COVID-19. For the week ending 20 July 2022, the ONS reported that 1 in 20 people in England were estimated to have COVID-19. While the disruption from COVID-19 has been substantially lower, it has not been eliminated.

Claims authorisations are increasing and, in the second half of the year, overall authorisation rates were above 2019 rates. Some of this will likely be care delayed during the pandemic. The Company believes that the persisting effects of the pandemic continue to place a substantial risk of delayed diagnosis and potentially higher severity conditions, and potentially higher cost claims.

More people will want to seek healthcare through private insurance policies and self-pay treatments, while challenges still exist in accessing services, with all-time high waiting lists in the public sector. The challenges are keenly seen in the public health sector where material challenges exist in access and staffing. While there is not country-wide visibility on private sector activity, the Company's data suggests a reduction against expected activity for the earlier parts of the financial year. Going forward, these challenges will push up private

**STRATEGIC REPORT**

utilisation, and it is hypothesised that the conditions and morbidities exist but claims have still to materialise at expected levels. The Company has continued to show a high level of resilience to the impacts of COVID-19 and there were no significant impacts on operations or service levels during the year.

There has been considerable interest in the monkeypox multi-country outbreak. The Company has not seen evidence of any material effect on operations or on the healthcare benefits the Company funds although this is being closely monitored.

The Company uses quota share reinsurance treaties as one of the mechanisms to manage initial acquisition cost strain, using reinsurance-based financing to spread initial acquisition costs over multiple policy years to better reflect the economics of the product. The Company principally uses cashless financing reinsurance treaties which assume that cash settlement of the treaty occurs only if certain volumes of risk profits or premiums are not achieved due to the increase in claims or lapses in policies. The amount of further new cashless financing reinsurance received in the financial year ended 30 June 2022 was £51,400k (2021: £44,000k).

A number of reinsurance treaty amendments were signed with the reinsurers during the financial year ended 30 June 2021 in order to change the repayment profile of the treaties in response to the impact of the pandemic on the economic profile of the reinsured business, reducing access to treatment during the pandemic in the short term and introducing a catch up in later periods. These amendments had the effect of increasing the premiums ceded in the financial year ended 30 June 2021 by £39.7m. As expected the treaty amendments have reduced the current year ceded premiums by £19.8m, with the same amount of reduction expected in the next financial year. The amendments only affect the re-phasing of the repayments between the years but with no net impact in total over the three financial years. See note 6 for further detail.

During the years ended 30 June 2022, 2021 and 2020 an adjustment was made to the pattern of earning premiums and related commission in order to align with the incidence of risk which changed as a result of COVID-19. The adjustment is detailed in note 3.1, Critical accounting judgements in applying accounting policies.

At the end of the 30 June 2021 financial year the Company had an accumulated deficit of £75,833k as part of the total equity balance in the Statement of Financial Position. Profit after tax of £52,744k for the year ended 30 June 2022 combined with a capital reduction of £80,000k effective 10 June 2022, recorded as a reduction in share premium and an increase to retained earnings, partially offset by a dividend paid of £20,000k to Vitality Health Insurance Limited, resulted in retained earnings of £36,911k as at 30 June 2022.

All contracts of employment are held by Vitality Corporate Services Limited ("VCSL"). VCSL provides management services to the Company including the recharge of expenses incurred on its behalf. All staff costs and other costs incurred by VCSL are allocated and recharged between the Company, Vitality Life Limited ("VLL"), other entities within the Discovery Group Europe Limited group and other entities within the Discovery Limited group, the Company's ultimate parent company.

**Future outlook**

The VitalityHealth vision and purpose is to focus on health and wellness and to continue to differentiate itself in the marketplace. By focusing on lifestyle as well as illness, VitalityHealth will create awareness of the real issues facing society, empower members to make positive change and contribute towards a healthier nation. With this vision and purpose VitalityHealth aims to maintain a sustainable profitable business.

VitalityHealth will continue to focus on writing business that contributes to both profit and growth. Health and wellbeing will remain a strong feature in the products as the directors believe that the promotion of good health will bring benefits in terms of lower claims ratios as well as improved customer retention, leading to improvements to individuals' lifestyles and health, their productivity and public health generally.

The Company will continue to be the sole underwriter of private medical insurance in the Group.

The global response to COVID-19 has significantly developed in the past twelve months with a sustained, robust global vaccination response.

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Over the period there has been the conflict between Russia and Ukraine, increased economic uncertainty and the 'cost of living crisis' due to the burden of high inflation. The Company is closely monitoring and managing the associated risks and remains committed to supporting its staff and customers as any associated challenges emerge, as was the case during the height of the COVID-19 pandemic. Healthcare inflation is likely to increase significantly and there are challenges in both pay and goods. As noted above, it is expected that there will be the highest level of underlying healthcare inflation in the past 7 years. The Company continues to take the steps it can to mitigate these risks.

The Company has this year demonstrated very strong performance against all key metrics. Demand for PMI continues to increase and the Company has grown the number of lives covered substantially. The Company believes that demand is likely to continue to increase given the visible financial and operational challenges the public healthcare system is currently managing. The Company has demonstrated continued positive effects from cost inflation management across a number of different areas of healthcare spend.

The far-reaching effects and risks of an inflationary spiral, however, cannot be discounted, and the the Company will continue doing all it can on behalf of customers to help manage claims costs. Furthermore, accessibility of care may pose a potential risk, particularly outside of Greater London, as demand for private services increases.

Despite such material uncertainty, the directors continue to have confidence in the business and its ability to manage challenges that may emerge over the coming year. The trends highlighted at the end of the two previous financial years have continued, including:

- Strong customer interest in private medical insurance and ancillary products;
- A desire for the reassurance of faster access to healthcare in the face of growing waiting lists;
- Continued increases in levels of healthcare activity;
- Development of further healthcare and digital innovations to improve customer value, including being the first major health insurer in the UK to offer material digital claims functionality;
- Continuing to hold a unique market position offering shared value insurance to improve health to aim to reduce illness, as well as fund the treatment of illness; and
- An exceptionally effective, comprehensive range of customer retention initiatives.

In conclusion, the Company continues to operate in an environment of far less certainty, and the directors continue to monitor developments closely. Their current assessment is that, with significant mitigations, the adverse impact on the business is likely to be manageable in the future.

The directors have obtained and will continue to monitor reports from across multiple functions within the Company on the implementation of the business continuity plans as well as the financial position of the Company.

The Directors continue to monitor the ongoing impact of COVID-19 and the geopolitical and economic environment on the Company's subsidiaries but do not expect any significant direct impacts on the Company.

### Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to insurance risk, which arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In particular, the risk is that claims experience turns out to be worse than anticipated in the pricing basis, and that claims reserves are insufficient to meet insurance liabilities as they fall due. COVID-19 has created further uncertainty in respect of claims, in particular when it comes to the levels of treatments policyholders have accessed compared to pre-pandemic levels.

COVID-19 has also created greater uncertainty in setting the outstanding claims provision as at 30 June 2022, 2021 and 2020. Further information is detailed in note 2.1, Critical accounting estimates in applying accounting policies.

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Information on the management of insurance risk is provided in note 4 to the financial statements. In addition, note 22 contains information on the claims reserving process and on claims development.

#### Financial risk management

The Company manages its various financial risks as outlined in note 4 to the financial statements.

#### Key performance indicators (KPIs)

The UK private medical insurance business is relatively straightforward in nature. A monthly report of many operational metrics is produced but two particular key metrics are routinely used in the assessment of the Company's performance:

- **Net earned premium**

The level of net earned premium has increased in the financial year ended 30 June 2022 to £480,485k (2021: £405,776k). The key driver behind this growth is a 13% growth in insured lives during the financial year ended 30 June 2022 (2021: 7% growth). In addition, the re-phasing of the repayments of certain cashless reinsurance treaties in June 2021, as detailed in note 6, resulted in additional premiums ceded to reinsurers in the prior financial year and a reduction in premiums ceded to reinsurers in the current financial year.

- **Profit before tax**

The profit before tax in the financial year ended 30 June 2022 has increased to £64,340k (2021: £39,149k). The largest contributor to this is the growth in insured lives noted above, as a consequence of both strong new business and retention rates.

#### Environmental Reporting

The Vitality Group is part of the Discovery Group ("Discovery"), a global financial services organisation. Discovery has publicly set out its climate change position for the whole group which acknowledges that this is one of the key risks facing businesses and society. As well as government commitments, there is growing pressure from both society and investors for companies to align their business models with a net-zero future, and to integrate climate change into their post-pandemic recovery. This provides an opportunity to address both health and climate-related challenges, given their inter-dependencies. As a global financial services organisation, Discovery recognises that its ability to do business is fundamentally linked to the sustainable well-being of the communities in which it operates.

The Vitality Group's core purpose of making people healthier and enhancing and protecting their lives is aligned to the goal of maintaining an environment that enables and sustains good health. In addition, through the Vitality Group's Shared-Value business model, the Vitality Group plays a significant role in influencing the members' health and financial behaviour, and the value created from this behaviour change is shared with the members and society. The Vitality Group has an opportunity to become part of the climate-change solution by extending the Shared-Value model into this space, while minimising the Vitality Group's own impact.

To achieve these ambitions, the Vitality Group's climate change strategy has set targets to achieve Carbon Neutrality by 2025 and Net Zero by 2050 or earlier with the aim of publishing a Net Zero plan by 2025 which will include interim targets. This is defined at a Discovery Group level and includes all subsidiaries as achieving carbon neutrality for scope 1 and 2 emissions by 2025. This means reducing the Vitality Group's scope 1 and 2 emissions by as much as possible and offsetting the remainder. In the UK the Vitality Group's scope 1 and 2 emissions are low in both absolute and relative terms as most of the energy is sourced through renewable means. The residual emissions are due to some use of gas and the nurse fleet of vehicles. The Vitality Group has plans to decarbonise for these sources of emissions. The Vitality Group will continue to focus on the following:

- Assess and acknowledge potential climate-related risks and opportunities, and formulate appropriate strategies;
- Integrate climate-change issues into Vitality Group policies and practices, including investments, procurement and partnerships;

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- Set science-based targets aligned with global best practice for direct and indirect greenhouse gas emissions;
- Innovate to develop climate-friendly products and services that positively influence society;
- Drive climate action and advocacy through industry and policy engagement; and
- Disclose and report on climate-related risks, strategies, targets and progress that are aligned with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

The Vitality Group is closely involved in supporting this. A Chief Sustainability Officer has been appointed and Vitality has engaged specialist sustainable strategy consultants to support and advise on its approach.

#### Direct environmental footprint

The direct environmental impact of the Company's operations is relatively low since there is no manufacturing element to the business, however, the urgency of action on climate change is recognised and the need for responsible environmental policies, practices and education.

The Company is committed to reducing its direct environmental footprint. This has happened in a number of places, for example:

- The commencement of an electric vehicle trial for the company car fleet;
- Full building energy and environmental surveys across the property portfolio in order to identify areas where emissions can be reduced;
- 88% renewable electricity contracts in place and carbon offset gas contracts. A plan is being developed to move the remaining contracts to renewable at the appropriate time;
- Increased usage of video conferencing facilities to reduce the travel carbon footprint of the business;
- The development of a new travel policy to reduce travel;
- The removal of all single use plastic cups in Vitality restaurants and office vending; and
- Reduction of paper usage through data collation for customer documentation, marketing collateral and magazines, photocopier paper and hand towel usage using sustainable sources.

Each year, the Vitality Group have reported some high level components of facilities and other carbon impacts such as electricity usage, whole gas for heating and the petrol used by company vehicles (for the Vitality nurses), and these have been included in the annual Discovery Sustainable Development report.

VCSL enters into all supply contracts on behalf of all the companies within the Vitality Group and hence the data has not been split out for individual Vitality Group companies. Information regarding consumption is included in the VCSL financial statements.

#### Managing the risks from climate change

The Vitality Group's Board takes an active interest in ensuring the potential impact from climate change is properly assessed and managed within the business. The risks are monitored and assessed on an ongoing basis as part of the implementation of Vitality's Group Enterprise Risk Management Framework and incorporated into the Own Risk and Solvency Assessment ("ORSA") process which includes stress and scenario testing and an analysis of current and emerging risks. A programme is in place to ensure compliance with regulatory requirements to more deeply integrate climate and sustainability considerations into the risk management framework.

Across the Vitality Group, the related claims risks are considered to be relatively limited, with the ability to reprice contracts at both inception and renewal for the Company or share risk with reinsurers providing mitigation against this risk, though there is a further risk that the cost of insurance may become too expensive for members which may impact on overall business volumes. There is minimal exposure to climate risk from its invested assets (primarily cash, short-term liquidity funds, and corporate bonds), and the Vitality Group is working to further reduce the carbon intensity of these. Unit-linked assets for the VitalityInvest clients are invested in underlying investment funds provided by external asset managers. These funds are generally well diversified, provide industry standard risk disclosures and may be subject to climate change risk. There is an increasing industry trend for customers to consider investment solutions that integrate ESG considerations and VitalityInvest have launched an EnVIRO range to cater for this customer need. The Vitality Group recognises



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that there are operational and expense risks relating to the implementation of its own and its suppliers' climate and sustainability strategies, and risks relating to new regulations or taxes in this area. It further recognises the reputational, business and strategic risks of not updating its own business model to actively reduce and minimise its impact on the environment.

### Corporate Governance

The Company is in scope for the Streamlined Energy and Carbon Reporting, however it is exempt due to low emissions. The activities that give rise to emissions and energy consumption are controlled by VCSL on behalf of the Vitality UK Group of companies. The required disclosure has been made in the financial statements of VCSL.

The Company does not meet the qualifying thresholds to report on its Corporate Governance arrangements pursuant to the Companies (Miscellaneous Reporting) Regulation 2018. VCSL (company number 05933141), a company in the same Group as the Company, reports its Corporate Governance arrangements pursuant to the Companies (Miscellaneous Reporting) Regulation 2018 as it meets the qualifying thresholds, and has adopted the Wates Principles.

The Wates Principles have been applied across the Group. Full details of these Corporate Governance arrangements can be found in the financial statements of VCSL.

#### (a) Board structure and composition

The Group Board achieves efficiency across the Vitality Group, ensuring that the strategic issues and matters relating to stakeholders are being thoroughly considered in the most efficient way. This is achieved by bringing together all the businesses in the Vitality Group under one Operations Oversight Board (Vitality UK Board) whilst ensuring that the individual companies meet their individual statutory and regulatory requirements. This approach is in line with the One Vitality vision and purpose which delivers a seamless customer experience integrating how we develop and deliver product propositions to all Vitality UK customers - Health, Life, Invest and Car.

The structure of the Boards ensures that all operational matters are tabled for discussion and debate for all the businesses within One Vitality (namely Health, Life, Invest, Car and the Vitality Programme) at the Vitality UK Board.

This structure promotes operational consistency across all the businesses which benefits our members in terms of a seamless member service across the Vitality Group. The Vitality UK Board is chaired by Mr Alastair Lyons, the current Chair of VLL and VHL, and the Deputy Chair is Ms Joanne Shaw (the current chair of VCSL).

The Group Board is convened separately to the operational businesses, and continues to table strategic matters, and issues that relate to DHEL, such as capital and funding and new strategic initiatives. The Group Board continues to be chaired by Mr Adrian Gore. This ensures that an appropriate amount of time and focus is allocated to the interests of our sole shareholder and parent company and the strategic objectives of the Vitality Group.

The Board structure provides sufficient opportunity to have the benefit of deep dives from subject matter experts, and recent examples this year include: a people update including hybrid working, Vitality Institute, CareHub and Specialist Finder.

During the year the Group Board approved the appointment of Mr Justin Skinner as the Vitality Group Chief Financial Officer. Mr Skinner was formerly the Managing Director of the Life business and previously the Group's Chief Risk Officer. Mr Justin Taugog was subsequently appointed as Managing Director of the Life business. In addition to being a Director of the Group Board, Mr Skinner was also appointed as a Director to Vitality Health Limited and Vitality Life Limited. The Group Board was also apprised of the formation of the

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Group Sustainability Committee which considers and reviews the key components of the Sustainability strategy and supports its execution and future direction.

#### (b) Vitality Programme Board

The Board structure includes the Vitality Programme Board which is a sub-committee of VCSL, chaired by the Chair of VCSL, Ms Joanne Shaw. This forum provides increased focus on the clinical robustness of the Vitality programme and the impact of engagement with the Vitality Programme on measures including mortality, morbidity and retention. In addition, the Vitality Programme Board drives cohesion across all the different areas that play a role in: 1) ensuring that the Vitality Programme is designed for optimal effectiveness; 2) devising and executing strategies that drive member engagement with the Vitality Programme where it has the greatest impact; and 3) demonstrating the effectiveness and credibility of the Vitality Programme through scientific research, and communicating this to members, advisers and the wider public.

#### (c) Board effectiveness review

In June 2022, an external Board effectiveness review took place of the Boards and Committees of Discovery Holdings Europe Limited ("DHEL") and Vitality UK Group. The three yearly external review due to be conducted in 2021 was delayed in order to allow the change in the composition and operating structure of the Vitality UK Board (introduced since the last external Board Effectiveness Review) to embed. The change in operation has been widely welcomed and is working effectively. In the main the Board was found to be effective. Amongst the more material of the recommendations resulting from the review were the following:

- The Board to avoid going into inappropriate detail on particular operational topics
- To continue to develop the Board's cognitive diversity
- To improve the Board's learning from experience by maintaining a list of material decisions taken for subsequent review
- Post the end of COVID-19 restrictions for NEDs to increase their visibility in the business and the number of times they meet together informally
- Board papers to be reviewed for their level of detail and length
- To prepare an annual forward work plan with NED input on topics that might be covered

#### **Principal decisions made (S.172)**

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act and have acted in accordance with these responsibilities during the year.

Vitality's Shared Value Model underpins its core purpose to help people lead healthier lives. It is based on the concept of interventions made by Vitality as an insurer will inspire behavioural change among its members – for the better. It is an incentive-based model, in which members are rewarded through a range of partners and benefits, when they take steps to be healthy.

As market disruptors, Vitality continues to transform the world of insurance through Shared Value. Society is increasingly demanding that companies have a strong social purpose, and by focusing on creating a healthier society, Vitality is truly at the forefront of this. It is good for Vitality's members, good for Vitality and good for society.

Vitality has implemented a One Vitality vision and purpose delivering a seamless customer experience with the integration of Health, Life, Invest and Car. Whilst combined Board meetings are convened, separate Board meetings for the individual entities are also convened to consider any matters specifically reserved for the specific Boards.

The examples below show how the Board of Directors considered Vitality's key stakeholders when considering and making decisions whilst performing their duties under Section 172 of the Companies Act 2006. Vitality's key stakeholders are members (customers), employees, Regulators, shareholder, Business Partners (suppliers) and financial advisors.

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The governance structure referred to above in the Strategic report provides increased focus to consider how Board decisions impact of all stakeholders.

#### COVID-19 response

The Board was advised of the continued measures taken to protect employees, members and advisers as follows:

- All employees of Vitality were able to work from home during the surge of the virus when Omicron was prevalent, whilst ensuring that members were not impacted by this shift in the working pattern; with front-line staff being able to handle members' calls from secure network connections at home. Employees were also supported by the provision of a Coronavirus Hub on the intranet with a range of resources to guide and support employees during the pandemic. A hybrid method of working remains in force;
- Members were kept up to date with regular communications and a COVID-19 FAQ page, and kept engaged with relevant content delivered by Vitality's Ambassadors through social media channels; and
- Throughout the year, the Board has considered the level of customer claims throughout the pandemic and reserving for the expected catch up, and considered at each stage the benefit members receive. Estimations and reserves have been considered and discussed at the Board with the support of the Actuarial Committee (a Committee of the Board) and conservative claims reserves have been set. As a result, the Company's members have seen lower renewal premium increases whilst also seeing increased member value through the Vitality@home benefits, together with virtual medical appointments where appropriate

#### Regulatory, legal & compliance

In accordance with the Board's Terms of Reference, certain items are considered and if appropriate, approved on an annual basis. During the review, Directors have regard to key stakeholders, including, employees, the regulator, customers and shareholder:

- Business plans, Capital and Funding plans;
- Directors' conflicts of interest;
- Vitality's modern slavery statement was approved by the Group Board (on behalf of all the companies within the Vitality Group). The statement and supporting policy ensures compliance with the UK Modern Slavery Act 2015;
- Approval of the Tax Management Policy and Capital Management Policy, the Money Laundering Reporting Officers Report, Risk appetite statements and key risk indicators, Recovery and Resolution plan and the Whistleblowing report; and
- The Company's management responsibility maps that detail its management and governance arrangements.

#### ORSA

The Company's Own Risk and Solvency Assessment (ORSA) was considered by both the Actuarial Committee and the Risk Committee (Committees of the Board), and approved by the Board.

The ORSA enables key stakeholders within the business to understand the risks which Vitality is most exposed and therefore allows more informed decisions to be made.

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The aim in the short run is to set out the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks faced by the business, and to independently determine the capital resources necessary to ensure that the overall solvency needs are met at all times. In the long run this should support the ongoing sustainability of the business and allow the business to react to both internal and external factors as they evolve.

#### Strategy and Roadmap for ESG

The Board reviewed and approved the Strategy and Roadmap for ESG. It was agreed that there be a greater focus on ESG across all aspects of governance and as a result ESG and Climate related risks and opportunities have been incorporated into the risk and governance framework.

#### Remuneration

The External Remuneration Committee ("the ERC"), a sub-committee of the Vitality Group Board, reviewed and approved the bi-annual award of short term incentives to staff, taking into account the following factors such as, but not limited to, governance, customer service, internal gender diversity targets, profit and sales. A governance rating is also applied which is determined by the Independent Directors who chair the Risk, Audit and Actuarial Committees (Committees of the Board). In accordance with regulatory guidance, the independent Directors also oversee the remuneration and incentives for those staff holding Solvency II controlled functions.

The ERC approved all aspects of remuneration relating to the Group CEO and his direct reports.

The ERC also considered and approved the 2021 LTIP allocations.

The employees' annual salary increase was also approved.

#### Office Re-location

The Board approved the exercise of the break-clauses in the London and Croydon offices during the year, and they will be relocating during the coming year. The move will see the two locations being combined to enable a fully functional hybrid working model, whilst also providing an improved working environment for employees. The move will also provide future benefits in relation to the Company's sustainability targets through an overall reduction in space and will deliver sustainable benefits through design and fit-out.

#### Capital and Assets

The key decisions relating to capital and assets are detailed in note 20 in the financial statements.

#### Conflicts

See Wates Principles included in the VCSL financial statements.

On behalf of the board



**Neville Koopowitz**

Chief Executive Officer and Director

Vitality Health Limited (Reg No: 05051253)

29 September 2022

## REPORT OF THE DIRECTORS

### Directors

Apart from the appointment and resignation listed below the directors listed on page 3 were in office for the whole financial year and up to the date of signing the financial statements.

One new director was appointed in the financial year ended 30 June 2022 as detailed below:

Justin Skinner                      16 February 2022

One director resigned in the financial year ended 30 June 2022 as detailed below:

Michael Saunders                15 October 2021

The directors are not subject to retirement by rotation.

### Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

### Going concern

Going concern has been evaluated by the directors of the Company who have concluded that it is reasonable to expect the Company to remain in business for a period of at least 12 months from the date of signing of the financial statements.

In performing this evaluation the directors of the Company have considered the board approved business plan to support the solvency and liquidity requirements of the business for the next 12 months.

There are no significant factors arising from COVID-19 which would cause the directors to reconsider the application of the going concern principle or the value of financial statement components at the reporting date. See the strategic report on page 4 for the Company's future outlook which sets out the basis on which the directors consider that COVID-19 will only have a limited adverse impact on the business in the future.

### Results and dividend

The Company paid a dividend of £20,000k to Vitality Health Insurance Limited in the financial year ended 30 June 2022 (2021: £nil).

The results for the year ended 30 June 2022 are set out on page 22, within the Statement of comprehensive income.

### Financial risk management

The Company manages its various financial risks as outlined in note 4 to the financial statements (including the Capital Management policy).

### Future developments

See the Strategic report on page 5 for future developments.

### Political donations and political expenditure

No contributions were made for political purposes during the financial year ended 30 June 2022 (2021: £nil).

**REPORT OF THE DIRECTORS**

**Statement of directors' responsibilities in respect of the Annual Report, Strategic Report, The Directors' Report and the financial statements**

The directors are responsible for preparing the Annual Report, the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' confirmations**

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Independent auditors**

The auditors, KPMG LLP, have been appointed by the Board as the Company's auditors in accordance with the elective resolution passed by the Company under the Companies Act 2006. As required by regulation, the directors fulfilled their requirements to participate in a competitive tender for the audit of the Company. As a result KPMG were appointed and the financial year ended 30 June 2022 is their first year as auditors. A recommendation has been made to the Board to appoint KPMG for the audit of the Company for the financial year ending 30 June 2023. A resolution proposing their appointment will be made following the finalisation of the 30 June 2022 audit.

**Validity Health Limited**

**REPORT OF THE DIRECTORS**

On behalf of the board

A handwritten signature in black ink, appearing to be 'N. Koopowitz', with a stylized flourish at the end.

**Neville Koopowitz**

Chief Executive Officer and Director

Validity Health Limited (Reg No: 05051253)

29 September 2022

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH LIMITED  
AS AT 30 JUNE 2022**

**1 Our opinion is unmodified**

We have audited the financial statements of Vitality Health Limited ("the Company") for the year ended 30 June 2022 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the statement of cash flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the directors on 13 September 2021. The period of total uninterrupted engagement is for the one financial year ended 30 June 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

**2 Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH LIMITED  
AS AT 30 JUNE 2022**

Valuation of insurance liabilities (incurred but not reported) £30million <i>Refer to page 28 (accounting policy) and page 35 (financial disclosures)</i>	
The risk	Our response
<p><b>Subjective valuation:</b></p> <p>Claims outstanding represent a significant liability for VHL. The valuation of the reserves, in particular those incurred but not reported 'IBNR', has a high level of estimation uncertainty due to assumptions required to be made in respect of future experience. These assumptions include treatment rates; cost per claim paid; response curve; inflation rate and seasonality. Small changes in the assumptions and estimates used to value to the insurance contract liabilities can have a significant impact on the valuation. The susceptibility to misstatement due to error and fraud is high as a result of the high levels of estimation and judgement imposed by management to formulate the reserve risk</p>	<p>With the assistance of our own actuarial specialists, our procedures included:</p> <ul style="list-style-type: none"> <li>– <b>Independent re-performance:</b> We performed independent re-projections of reserves balances using our own models for certain types of claims. The determination of which claims to reproject was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures;</li> <li>– <b>Our sector experience and benchmarking assumptions:</b> We applied our industry experience and market benchmarks to support our consideration and challenge of the Company's reserving methodology, key judgements and assumptions.</li> <li>– <b>Assessing transparency:</b> We considered the adequacy of the Company's disclosures in relation to the estimate, including the key assumptions applied to key areas of judgement and estimation uncertainty.</li> </ul> <p>We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p><b>Our results</b></p> <p>We found the valuation of the insurance liabilities to be acceptable.</p>

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH LIMITED  
AS AT 30 JUNE 2022**

Valuation of UPR adjustment £15million <i>Refer to page 28 (accounting policy) and page 35 (financial disclosures)</i>	
The risk	Our response
<p><b>Subjective valuation:</b></p> <p>Premiums are earned in line with the risk accepted through the policy. Historically this has been evenly over the life of the policy. In recent periods, management have increased the unearned premium reserve, adjusting the earnings pattern to reflect the distortion caused by COVID-19 to the underlying risk profile. As at 30 June 2022, this adjustment has increased to £15.2m to also reflect the impact of the inflationary environment on risk exposure. Key assumptions used within the model are the predicted future claims levels and inflation factors applied to the underlying data. The susceptibility to misstatement due to error and fraud is high as a result of the high levels of estimation and judgement used by management to calculate the adjustment</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– <b>Independent reperformance:</b> We carried out independent analysis of the adjustment using independent expectations of key assumptions such as the assumption that normal levels of claims return post June 2022; and the rate of future inflation assumed.</li> <li>– Our sector experience: We applied our industry experience to support our consideration and challenge of the Company's methodology and assumptions.</li> <li>– <b>Assessing transparency:</b> We considered the adequacy of the Company's disclosures in respect of the sensitivity of the adjustment and key assumptions applied to key areas of judgement and estimation uncertainty</li> </ul> <p>We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p><b>Our results</b></p> <p>We found the valuation of the UPR adjustment to be acceptable</p>

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at £4.8m determined with reference to a benchmark of £480m, of net earned premiums which it represents 1%.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% of materiality for the financial statements as a whole, which equates to £3.1m. We applied this percentage in our determination of performance materiality because we identified factors indicating an elevated level of risk due to this being our first year as auditors.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.24m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality and performance materiality levels specified above. The audit of expenses recharged to VHL by VCSL was carried out by the VCSL audit team. We reviewed the work performed. All other audit procedures were performed by the VHL audit team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH LIMITED  
AS AT 30 JUNE 2022**

**4 Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- a deterioration in claims experience;
- a deterioration in expected growth levels; and
- failure to meet savings targets.

We considered whether these risks could plausibly affect the Company's regulatory capital or liquidity in the going concern period by assessing the impact of severe but plausible adverse effects that could arise from these risks individually and collectively on the Company's financial forecasts.

Our procedures also included:

- Evaluation of the consistency, arithmetical accuracy and reasonableness of the data and assumptions used in management's going concern assessment paper.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

**5 Fraud and breaches of laws and regulations – ability to detect**

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatements due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the Audit Committee, internal audit and management, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Performing analytical procedures to identify any unusual or unexpected fluctuations and relationships in the account balances.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk that management may be in a position to make inappropriate accounting estimates, and the risk of bias in accounting estimates and judgements. We rebutted the presumed fraud risk in relation to

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH LIMITED  
AS AT 30 JUNE 2022**

revenue recognition due to the fact that revenue is primarily derived from insurance contracts which are, individually, of low value.

We also identified fraud risks related to the valuation of insurance contract liabilities and the valuation of the adjustment to UPR, in response to the level of estimation and judgement in these balances. Further detail in respect of insurance contract liabilities and the adjustment to UPR is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test, based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, journals impacting cash balances that were identified as unusual or unexpected in our risk assessment procedures
- Assessing significant accounting estimates for bias.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of Company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH LIMITED  
AS AT 30 JUNE 2022**

**6 We have nothing to report on the strategic report and the directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- a. we have not identified material misstatements in those reports;
- b. in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- c. in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**7 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- a. adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- b. the financial statements are not in agreement with the accounting records and returns; or
- c. certain disclosures of directors' remuneration specified by law are not made; or
- d. we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**8 Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page 16, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

***Auditor's responsibilities***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**9 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Thomas Tyler (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
29 September 2022

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2022**

	Note	Year ended 30 June	
		2022 £'000	2021 £'000
<b>Revenue</b>			
Gross written premiums	5, 22c	588,734	497,544
Premiums ceded to reinsurers	6, 22c	(90,081)	(110,328)
<b>Net premiums written</b>		<b>498,653</b>	<b>387,216</b>
Change in provision for unearned premiums - gross amount	22c	(31,549)	36,588
- reinsurers share	18b, 22c	13,381	(18,028)
<b>Net change in provision for unearned premiums</b>		<b>(18,168)</b>	<b>18,560</b>
<b>Net earned premiums</b>		<b>480,485</b>	<b>405,776</b>
Interest revenue	7	1,956	46
Fair value gains on financial assets	14d	—	1,651
Other income	8	1,238	1,283
<b>Total income</b>		<b>483,679</b>	<b>408,756</b>
<b>Expenses</b>			
Claims and benefits paid		278,064	251,639
Claims recoveries from reinsurers	18a	(65,179)	(63,857)
<b>Net claims and benefits paid</b>		<b>212,885</b>	<b>187,782</b>
Gross changes in claims outstanding	22	3,561	7,356
Reinsurers' share of changes in claims outstanding	18b, 22	(2,037)	(611)
<b>Net changes in insurance contract liabilities for claims</b>		<b>1,524</b>	<b>6,745</b>
Acquisition costs	9a	84,845	76,371
Reinsurance income	18a	(51,400)	(44,000)
Finance costs	10	2,364	2,849
Fair value losses on financial assets	14d	3,904	—
Administrative expenses	9b	164,874	139,422
Other expenses	8	343	438
<b>Total expenses</b>		<b>419,339</b>	<b>369,607</b>
<b>Profit before tax</b>		<b>64,340</b>	<b>39,149</b>
Tax expense	11a	(11,596)	(5,518)
<b>Profit and total comprehensive income for the year</b>		<b>52,744</b>	<b>33,631</b>

The Company has no comprehensive income or expense other than the profit for the year recognised in the statement of comprehensive income.

All amounts above are in respect of continuing operations.

Vitality Health Limited

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30 JUNE 2022**

		As at 30 June	
		2022	2021
	Note	£'000	£'000
<b>Assets</b>			
Property, plant and equipment	16	9,034	9,251
Amounts receivable on direct insurance business	19	285,950	246,752
Deferred acquisitions costs	17	49,035	41,863
Reinsurers share of insurance contract liabilities	18b	84,033	68,666
Financial assets at fair value through profit or loss	14d	30,165	49,347
Financial assets at amortised cost	14	918	515
Debtors arising out of reinsurance operations	18a, 19	198,538	155,973
Deferred tax asset	12	15,612	15,865
Other assets	15	231	194
Cash and cash equivalents	14a	165,402	190,469
Current income tax asset		5,454	—
<b>Total assets</b>		<b>844,372</b>	<b>778,895</b>
<b>Equity</b>			
Ordinary share capital	20	4,012	4,012
Share premium	20	317,238	397,238
Retained earnings (accumulated deficit)	20	36,911	(75,833)
<b>Total equity</b>		<b>358,161</b>	<b>325,417</b>
<b>Liabilities</b>			
Unsubordinated loan payable	23	—	12,986
Subordinated loan payable	23	—	6,790
Insurance contract liabilities	22	366,909	331,740
Creditors arising out of reinsurance operations	18a	83,037	67,253
Current income tax liability		—	230
Other liabilities	21	36,265	34,479
<b>Total liabilities</b>		<b>486,211</b>	<b>453,478</b>
<b>Total equity and liabilities</b>		<b>844,372</b>	<b>778,895</b>

The financial statements on pages 22 to 56 were approved by the Board of Directors on 29 September 2022 and signed on its behalf by



**Neville Koopowitz**

Chief Executive Officer and Director

Vitality Health Limited (Reg No: 05051253)

The notes on pages 26 to 56 are integral to these financial statements

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2022**

	Ordinary share capital £'000	Share premium £'000	Retained earnings (accumulated deficit) £'000	Total equity £'000
<b>At 1 July 2020</b>	<b>4,012</b>	<b>397,238</b>	<b>(109,464)</b>	<b>291,786</b>
Profit and total comprehensive income for the year	—	—	33,631	33,631
<b>At 30 June 2021</b>	<b>4,012</b>	<b>397,238</b>	<b>(75,833)</b>	<b>325,417</b>
Profit and total comprehensive income for the year	—	—	52,744	52,744
Dividend paid	—	—	(20,000)	(20,000)
Capital reduction	—	(80,000)	80,000	—
<b>At 30 June 2022</b>	<b>4,012</b>	<b>317,238</b>	<b>36,911</b>	<b>358,161</b>

The notes on pages 26 to 56 are integral to these financial statements



**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2022**

	Note	Year ended 30 June	
		2022 £'000	2021 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		64,340	39,149
Adjustments for:			
Depreciation of property, plant and equipment	16	217	217
Amortisation of deferred acquisition costs	17	84,845	76,371
Movement in operating assets and liabilities	24	(136,848)	(68,223)
Interest on unsubordinated loan payable	23	241	198
Interest on subordinated loans payable	23	190	259
Interest income on corporate bonds		(1,561)	—
Fair value gains / (losses) on financial assets	14d	3,904	(1,651)
Income tax paid	11	(5,715)	(3,023)
Group relief paid		(11,311)	—
<b>Net cash (used in) / generated by operating activities</b>		<b>(1,698)</b>	<b>43,297</b>
<b>Cash flows from investing activities</b>			
Withdrawals from investment portfolios	14d	15,278	6,994
Interest income received		1,561	—
<b>Net cash provided by investing activities</b>		<b>16,839</b>	<b>6,994</b>
<b>Cash flows from financing activities</b>			
Repayment of loans	23	(20,207)	—
Dividends paid	20	(20,000)	—
<b>Net cash used in financing activities</b>		<b>(40,207)</b>	<b>—</b>
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>(25,067)</b>	<b>50,291</b>
Cash and cash equivalents at the beginning of the year	14a	190,469	140,178
<b>Cash and cash equivalents at the end of the year</b>	<b>14a</b>	<b>165,402</b>	<b>190,469</b>
<b>Supplemental disclosures on cash flow from operating activities</b>			
Interest revenue	7	1,956	46
Finance costs	10	(2,364)	(2,849)

The notes on pages 26 to 56 are integral to these financial statements

**Vitality Health Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**1. Significant accounting policies**

**1.1 Basis of preparation**

The financial statements of Vitality Health Limited (the Company) for the financial year ended 30 June 2022 have been prepared on the going concern basis and in accordance with UK-adopted international accounting standards, in conformity with the requirements of the Companies Act 2006.

There are no significant factors arising from COVID-19 which would cause the directors to reconsider the application of the going concern principle or the value of financial statement components at the reporting date. See the strategic report on page 5 for the Company's future outlook, which sets out the basis on which the directors consider that COVID-19 will have only a limited adverse impact on the business in the short-term future.

The preparation of financial statements in conformity with UK-adopted international accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in notes 2 and 3.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

The principal accounting policies set out below have been consistently applied to all financial reporting years presented in these financial statements, unless otherwise stated.

**1.2 Summary of significant accounting policies**

**(a) Insurance contracts**

Insurance contracts are those contracts where the Company has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. The Company determines whether it has significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

*Gross premiums*

Gross premiums written relate to contracts inception during the financial year. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the statement of financial position date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

*Insurance benefits and claims*

Gross benefits and claims incurred includes all claims occurring during the year, whether reported or not; related internal and external claims handling costs that are directly related to the processing and settlement of claims; a reduction for the value of other recoveries; and any adjustments to claims outstanding from previous years. Deductions are recognised on an incurred loss basis.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Deductions are made for reinsurance and other recoveries, taking into account an assessment of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

**Vitality Health Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

An outstanding claims provision is made at the end of the year for the estimated cost of treatments incurred but not settled at the statement of financial position date, including the cost of treatments incurred but not yet reported. Due to the short-tail nature of the PMI business the outstanding claims provision is not discounted. The estimated cost of treatments includes expenses to be incurred in settling claims and a deduction for other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing outstanding claims provisions, it is likely that the final outcome will be different from the original liability established.

**(b) Impairment of other assets other than financial assets**

The carrying amounts of other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least at each statement of financial position date. An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the higher of an asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Other assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each financial year.

**(c) Deferred expenses**

*Deferred acquisition costs (DAC)*

The costs attributable to the acquisition of new business and the renewal of existing business, such as commission and the indirect costs of obtaining and processing such business, are deferred to the extent that they are expected to be covered by future profits from the unearned premiums on these contracts. Deferred acquisition costs is that proportion of acquisition costs incurred in a year that relates to periods of risk after the statement of financial position date. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is determined to be less than the carrying value, an impairment loss is recognised in the statement of comprehensive income. DAC assets are also considered in the liability adequacy test for each financial year.

**(d) Investments and other financial assets and other financial liabilities**

The Company follows IFRS 9 in respect of the classification and measurement of financial instruments. Further information is included in note 14.

***Investments and financial assets***

**(i) Classification**

The Company classifies its financial assets into the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit and loss ("FVPL")); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are recorded in profit or loss. The Company reclassifies financial assets only when its business model for managing those assets changes. The Company does not currently utilise the FV through OCI measurement category.

**(ii) Recognition and derecognition**

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the

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financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*(iii) Measurement*

Financial assets are deemed to be held under one of three business models:

- Hold to collect, where the business objective is to hold the asset to collect the contractual cash flows;
- Hold to collect and sell, where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
- Other.

The "Other" business model above includes assets held in a fair value business model. Most, if not all, of the Company's investments are classified as FVPL because this represents the business model.

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is measured using the effective interest method. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income. The balances disclosed as loans and receivables in the Statement of Financial Position are held at amortised cost.

*(iv) Impairment*

The Company recognises lifetime expected credit losses at the point of initial recognition for financial assets carried at amortised cost. These are assessed with reference to past default rates, also reflecting forward looking information such as local economic or market conditions. The Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the financial assets. See note 14 for further details.

For other financial assets a loss allowance is recognised for expected credit losses taking into account changes in the level of credit risk. Where credit risk is considered to be low, the loss allowance is limited to expected losses arising from default events that are possible within 12 months from the balance sheet date.

Impairment losses are charged to the statement of comprehensive income.

Amounts disclosed as amounts receivable on direct insurance in note 19, debtors arising out of reinsurance operations in note 19, and reinsurers share of insurance contract liabilities in note 18 are not subject to the impairment provisions of IFRS 9 but are reviewed annually for recoverability and impairment provisions held as appropriate. Insurance related items are out of scope for IFRS 9 and are covered by IFRS 4 *Insurance Contracts*.

***Financial liabilities***

Financial liabilities are classified as either:

- Financial liabilities at amortised cost (trade payables and loans with standard interest rates); or
- Financial liabilities at fair value through profit and loss (interest rate swaps, foreign exchange future/option contracts, convertible notes, contingent consideration, commodity contracts).

The Company measures financial liabilities at amortised cost unless either: it is held for trading and is therefore required to be measured at FVPL; or the Company elects to measure the liability at FVPL. All financial liabilities currently held are measured at amortised cost. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of comprehensive income.

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**(e) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or counterparty.

**(f) Reinsurance ceded to reinsurance counterparties**

Contracts entered into by the Company with reinsurers under which it is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. In classifying these contracts as reinsurance, the Company performs a number of scenario assessments to ensure that the contracts meet the risk transfer criteria required by IFRS 4. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. The amounts the Company is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (creditors arising out of reinsurance operations). The amounts due to the Company under its reinsurance contracts held are recognised as reinsurance assets (classified as debtors arising out of reinsurance operations).

The reinsurer's share of the change in insurance contract liabilities represents the movement in the reinsurer's share of the unearned premium reserve and the reinsurer's share of claims outstanding. Reinsurance income represents the reinsurer's share of expenses incurred by the Company in respect of the underlying insurance contracts to which each financing reinsurance treaty applies. Reinsurance income is measured in proportion to the gross expenses incurred, subject to any maximum level imposed by the financing reinsurance treaty.

Where reinsurance treaties are amended mid-term, but management consider that the terms of the treaty are substantially unchanged, the impact of the amendment will be recognised prospectively within the financial statements.

All premiums ceded to reinsurers are recognised when due, for both financing reinsurance treaties and other reinsurance treaties.

**(g) Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 1.2 (d).

**(h) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position include cash in hand, cash at banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are categorised for measurement purposes at amortised cost and highly liquid investments as fair value through profit and loss.

For the purpose of the statement of cash flows, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

**(i) Income tax**

The income tax expense or credit for the financial year is the tax payable on the current financial year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the financial year. The current tax charge is based on taxable profits and losses for the financial year after adjustments in respect of prior financial years.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and the carrying amount in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current and deferred tax is recognised in the statement of comprehensive income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority.

**(j) Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Purchases and sales of assets denominated in foreign currency are translated at the rates prevailing at the dates of the transactions. Exchange gains and losses are recorded within administrative expenses in the statement of comprehensive income.

**(k) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful life of the assets.

The estimated useful life of each asset class is:

Building	40 years
----------	----------

The building and land are accounted for under the cost model under which no upward revaluation is possible but impairment can be required if the value of the property falls. Depreciation on the building is recognised through the statement of comprehensive income. Land is not depreciated. The assets' residual value and useful life is reviewed, and adjusted if appropriate, at the end of each financial year. The building's carrying amount is written down immediately to its recoverable amount if the building's carrying amount is greater than its estimated recoverable amount. See accounting policy note 1.2b. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and these are included in the statement of comprehensive income.

**(l) Liability adequacy testing**

The Company applies a liability adequacy test at each reporting date to ensure that the insurance liabilities are adequate using current estimates of future cash flows. The tests include comparing the insurance liabilities against a range of widely used actuarial models such as the Chain Ladder models with different development periods, the Bornhuetter-Ferguson models and frequency and severity models with different delay and severity assumptions.

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If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the statement of comprehensive income by setting up an additional liability.

**(m) Provisions for liabilities and charges**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources or economic benefit will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation. Once a provision is recognised, it is measured at the amount that would be paid to settle the obligation. This includes discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, if this effect is material.

**(n) Interest revenue**

Interest income is recognised using the effective interest method.

**(o) Other revenue**

Other revenue represents rental and service charge revenue generated from the Company's ownership of an office building and is generated over time. Rental and service charge revenue is billed in advance and the portion of the revenue that relates to future performance periods is deferred and recognised as revenue in those future periods.

**(p) Leases**

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other revenue".

**1.3 Change in accounting policy and disclosures**

**(i) New standards, amendments and interpretations adopted during the year**

There have been no new standards or policies adopted during the year.

**(ii) New standards, amendments and interpretations not yet effective or adopted**

The Company has not early adopted any accounting standards, amendments, or annual improvements issued but not yet effective. The accounting standards, amendments and annual improvements described below are those that are expected to have an impact on the Company's results and/or disclosures. Accounting standards, amendments and annual improvements not mentioned below are not expected to have a significant impact on recognised amounts.

IFRS 17 was issued in May 2017, with amendments issued in June 2020 and December 2021. The new standard is applicable for annual periods beginning on or after 1 January 2023, with comparative restatement for 2022. For the Company IFRS 17 is therefore mandatory effective from 1 July 2023.

IFRS 17 requires the standard to be applied either retrospectively (full or modified retrospective) or using the fair value approach. Given the availability of reliable and accurate data and actuarial models the Company has elected to apply IFRS 17 retrospectively. The retrospective approach will require the Company to identify, recognise and measure groups of insurance contracts as if IFRS 17 had always been applied. Based on the work

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completed the impact of retrospective restatement in terms of impact is limited for the Company's short-term business.

IFRS 17 *Insurance Contracts* sets out a single principle-based standard for the recognition, measurement, presentation and disclosure of all types of insurance contracts. The current standard, IFRS 4, allows insurers to use their local GAAP. IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Application of a simplified premium allocation approach (PAA), which is expected to be applicable to most of the Company's business, is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. Any expected losses arising from loss-making contracts are to be accounted for in the income statement when the Company determines that losses are expected. The presentation of the income statement will also change, with premium and claims figures being replaced with *insurance contract revenue*, *insurance service expense* and *insurance finance income and expense*. Along with the Discovery Group, the Company is evaluating the impact of adopting IFRS 17 on the financial statements which includes:

- developing the accounting policies under IFRS 17;
- performing a PAA eligibility assessment for insurance and reinsurance contracts; and
- preparing end-to-end system architecture and configuring an actuarial calculation engine; and outlining an operational readiness framework including stakeholder engagement and an internal training plan.

The Company's implementation programme is progressing in line with expectations and has progressed well. However, as there are still decisions to be made and therefore an accurate and reliable estimate is unable to be provided until the latter part of the 2023 financial year. It is anticipated that the impact of IFRS 17 will only be fully quantified with reasonable certainty during the financial year ended 30 June 2023. The Company expects to be fully prepared to start a parallel run during 2022, during which the new IFRS 17 processes will be run and embedded, and the working assumptions refined and signed-off. Ongoing training initiatives are ensuring that various relevant stakeholders are familiar with the implications and requirements of this new Standard.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## **2. Critical accounting estimates in applying accounting policies**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in light of emerging experience and adjusted where required.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- |                                          |        |
|------------------------------------------|--------|
| • Capital management                     | Note 4 |
| • Financial risk management and policies | Note 4 |
| • Sensitivity analysis disclosures       | Note 4 |



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**2.1 Outstanding claims provision**

The estimation of treatments incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of incurred but not settled ("IBNS") treatments already notified to the Company, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where treatments are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, given the increased uncertainty and volatility that the COVID-19 pandemic has introduced into both the treatment and invoicing processes, the Company employs a frequency and severity model which uses expected claims costs and pathways based on the treatment authorisation call information. The Company uses a variety of estimation techniques alongside the frequency and severity models to help determine the appropriate reserve to hold. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in the external environment, such as hospital facilities being limited or unavailable;
- Hospitals being unable to process invoices consistently;
- Changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred treatments compared with the statistics from previous periods;
- Changes in the legal environment;
- The effects of inflation;
- The impact of large losses; and
- Movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid treatments. In estimating the cost of these the Company has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous periods.

Where possible, the Company also adopts multiple techniques to provide further estimates of the required level of provisions, including chain ladder models. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes.

The estimate is sensitive to changes in assumptions, but due to the short-tailed nature of the liabilities, at the date of signing of the financial statements this sensitivity is reduced as approximately 80% of claims are typically settled within 3 months of the treatment date.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. See note 22.

**3. Critical accounting judgements in applying accounting policies**

**3.1 Earnings Pattern**

As stated in the Company's accounting policy, unearned premium is that proportion of a premium written in a year that relates to periods of risk after the statement of financial position date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. Before the year ended 30 June 2020, the Company earned the premium straight-line over the life of each insurance policy as the incidence of risk had been broadly stable over time. However, COVID-19 caused a significant distortion of the incidence of risk because private hospitals were restricted in their availability during the early periods of the pandemic. As a result, for the year ended 30 June 2020, the Company developed a model to proportionally scale the premiums recognised in line with the pattern of the claims against normal expectations. The proportional change in earned premiums was a weighted average of each monthly cohort of policies, by cover date, with the weighting based on the relative premium size of each monthly cohort. This method of grouping also ensured

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that all premiums are earned within the contract boundaries of the policy, with no premium deferred between policy years. This model continued to be applied in the year ended 30 June 2022, with claims experience during the year impacted by the initial uncertain stages of the Omicron variant and by continued restrictions across the UK, such as the guidance to work from home which continued in England into January 2022.

Inflation has become a consideration within the earnings pattern, with UK CPI having reached 9.4% in June 2022 (2021: 2.5%). Inflation skews the exposure to risk over a 12-month period of cover, with the same treatment in 12 months' time costing more than it does now. As such, that increasing exposure over time means that a smaller share of premiums should be earned initially, and a larger share should be earned in future months of cover. The adjustment methodology for inflation applies the same principles in scaling premiums but uses an inflation-based risk exposure measure for each month for that scaling.

The model has relied on two key assumptions for the year ended 30 June 2022:

Key assumption number	Description	Assumption
1	Claims experience during the year ended 30 June 2023	Claims experience per life in line with inflation adjusted pre-pandemic levels
2	UK inflation levels during the year ended 30 June 2023	UK CPI peak in October 2022, trending down to close to 2% over the course of 24 months

The accounting policy remained unchanged, but the revised assumptions adopted for the 30 June 2022 financial year regarding the impact of COVID-19 on the incidence of risk represents a change in accounting estimate. That change in accounting estimate saw an additional £15,180k of unearned premium reserve as at 30 June 2022 than would have been recognised had premiums continued to be earned straight-line over the life of each policy (2021: £14,226k).

The key assumptions noted above are inherently judgemental. The estimate has a significant risk of a material adjustment to the carry amounts of assets/liabilities over the next financial year. The below table presents sensitivities surrounding these assumptions at 30 June 2022:

Sensitivity	Increase / (decrease) in £15m additional unearned premium reserve (£'000)	Increase / (decrease) in £15m additional unearned premium reserve (%)
Claims experience per life 1% lower than base assumption	(988)	(6.5%)
Claims experience per life 1% higher than base assumption	998	6.5%

Management have considered sensitivities on the interest rate assumption but have concluded that they have an immaterial impact on the additional unearned premium reserve.

### 3.2 Reinsurance Risk Transfer

Management apply judgement in assessing all reinsurance contracts for risk transfer at inception in accordance with IFRS 4.

For financing reinsurance treaties, management consider a range of scenarios under which the reinsurer could incur a loss under the terms of the treaty. The primary risk to which the reinsurers are exposed is the risk of adverse claims experience for the underlying insurance contracts underwritten by the Company. While the level of adverse claims experience required for the reinsurers to incur a loss is unlikely, management consider the scenarios to have commercial substance based on historic claims experience seen by the Company.

Management consider that the amendments to existing reinsurance treaties made during the financial year ended 30 June 2021, as set out in note 6, to have no impact on the original risk transfer assessment for those treaties. Had the revised terms applied from the point of inception of each reinsurance treaty, the scenarios considered within the risk transfer assessment would have been unchanged (i.e. the same level of adverse

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claims experience would have resulted in the same level of projected loss for the reinsurer under both the original and revised terms).

**4. Risk management policies**

**(a) Governance framework**

The Company's risk management policy ensures that the risks taken in meeting the Company's corporate, financial and regulatory objectives are identified and managed in accordance with the approved risk framework.

**(b) Insurance risk**

The Company takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Company risk profile.

The Company manages risks through a risk management framework, which allows for the identification, assessment, control and monitoring of risks. The Company has established effective risk management systems and controls within the framework for the following high-level categories of risk: insurance, credit, liquidity, market, operational and capital management.

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. It is the risk of adverse deviations from the cash flows assumed when pricing or reserving for insurance contracts.

The Company sets the acceptable level of insurance risk through its insurance risk policy.

The main features of the policy are:

- Insurance risk is only incurred in the pursuit of the Company's corporate and financial objectives, in particular to grow the business subject to maintaining adequate financial strength;
- The writing of business only on approved rates, which have regard to experience of significant factors such as claims experience, persistency and expenses;
- The use of reinsurance where appropriate;
- The monitoring of the adequacy of reserves to cover insurance liabilities; and
- Regular monitoring of the solvency capital of the Company (see note (g) below).

Insurance risk is only undertaken within the permitted activities of the Company. New business is written in accordance with approved pricing assumptions. Underwriting criteria are defined and aligned to the approved pricing assumptions. The Company's insurance risk is concentrated in the United Kingdom.

Reinsurance based financing is an important part of the Company's funding strategy, alongside shareholder capital. Financing is obtained to offset the total strain of writing new business, and this financing is then repaid in future periods through ceded premiums and claims under a quota share treaty. The Company has historically principally utilised cash financing reinsurance treaties. New cashless financing received in the financial year ended 30 June 2022 was £51,400k (2021: £44,000k).

A number of reinsurance treaty amendments were signed with the reinsurers during the financial year ended 30 June 2021 in order to change the repayment profile of the treaties in response to the impact of the pandemic on the economic profile of the reinsured business, reducing access to treatment during the pandemic in the short term and introducing a catch up in later periods. The amendments had the effect of increasing the premiums ceded in the financial year ended 30 June 2021 by £39.7m. As expected the treaty amendments have reduced the current year ceded premiums by £19.8m, with the same amount of reduction expected in the next financial year. The amendments only affect the re-phasing of the repayments between the years but with no net impact in total over the three financial years. See note 6 for further detail.

The following reinsurance contracts were in effect at 30 June 2021 and remain in effect at 30 June 2022:

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- A quota share agreements that effectively reinsured 8.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.0% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.0% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 6.0% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 6.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 6.7 % of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.3% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 8.5% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020; and
- A quota share agreement that effectively reinsured 12.0% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020.

The following reinsurance contracts were repaid during the financial year ended 30 June 2021:

- A quota share agreement that effectively reinsured 8.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 4.5% of the risk profit of all individual and SME business written up to and including 31 March 2016; and
- A quota share agreement that effectively reinsured 5.0% of the risk profit of all individual and SME business written up to and including 31 March 2016.

During the financial year ended 30 June 2022 the Company became a party to the following additional cashless reinsurance treaties:

- A quota share agreement that effectively reinsured 9.0% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020; and
- A quota share agreement that effectively reinsured 8.5% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020.

These agreements are all financing in nature, although they include significant insurance risk, effectively creating income to the Company at the start of the agreement which is then repaid via ceded premiums and claims over the duration of the agreement.

*Sensitivity of IFRS basis profit or loss and equity to loss ratio*

The Company has instituted a system that monitors loss ratios and feeds the results back into the premium rate setting process on an ongoing basis. Because of the short-tailed nature of the business and the intention to carry out this monitoring each month, the Company's reaction time to unexpected changes in loss ratio will be quick. Furthermore, due to the short-tailed nature of the business, the Company does not deem further disclosure around the sensitivity of IFRS profits and equity to insurance risk to be necessary. Management considers that the relevant risk variable would not be material within a sensitivity. This is on the basis that the Company's product covers treatments already performed and typically 80% of claims are settled within three months of treatment being provided. The Company intends that premium rates be amended every six months and retains the ability to make changes more frequently for new business. Policies already in force have their premium rates amended on every policy anniversary.

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**(c) Credit risk**

Credit risk is the risk incurred whenever the Company is exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform those obligations in a timely manner. The Company sets the acceptable level of credit risk through its credit risk policy.

The overriding requirement of the policy, which covers all assets beneficially owned by the Company, is that all assets are of sufficient quality and are sufficiently well diversified to represent appropriate backing for its liabilities, capital and reserves. The policy also requires compliance with all applicable legislation and regulation and sets further limits under specific types of financial instruments, as summarised below.

*Cash and cash equivalents*

Maximum exposure limits to external counterparties are set with reference to both short and long-term credit ratings issued by Standard & Poor's and Moody's.

*Reinsurance assets*

The Company's policy is to place reinsurance only with highly rated counterparties. The credit ratings are monitored on an ongoing basis.

*Other financial instruments*

All intermediaries are approved and regulated by the Prudential Regulation Authority and/or the Financial Conduct Authority. The Company's credit risk is concentrated in the United Kingdom.

Credit risk in respect of customer balances arising from non-payment of premiums only persist during the grace period specified in the policy document, on the expiry of which the policy is terminated.

The following table analyses the financial assets bearing credit risk using Standard & Poor's ratings:

	Credit Rating										
	AAA		AA		A		BBB or lower		Unrated		Total*
	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	£'000
30 June 2022											
Cash and cash equivalents	75.7	125,964	—	—	23.7	39,437	—	—	—	—	165,402
Financial assets at amortised cost	—	—	—	—	—	—	—	—	0.6	918	918
Total	75.7	125,964	—	—	23.7	39,437	—	—	0.6	918	166,320

\* Carrying value in the statement of financial position.

	Credit Rating										
	AAA		AA		A		BBB or lower		Unrated		Total*
	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	£'000
30 June 2021											
Cash and cash equivalents	80.6	153,862	—	—	19.2	36,607	—	—	—	—	190,469
Financial assets at amortised cost	—	—	—	—	—	—	—	—	0.2	515	515
Total	80.6	153,862	—	—	19.2	36,607	—	—	0.2	515	190,984

\* Carrying value in the statement of financial position.

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**(d) Fair value hierarchy**

As detailed in note 14 the Company's financial assets and liabilities held at fair value have been analysed using a fair value hierarchy that reflects the significance of the inputs used in valuing those instruments. The fair value hierarchy is based on the following levels. There have been no transfers between assets during the year.

**Level 1** – includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. An active market is a market in which transactions for the asset and liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

This category includes listed equity shares, government securities, certain supranational institution bonds, liquidity funds and exchange traded futures and options.

At 30 June 2022 the Company had assets that fell under Level 1 of £125,964k (2021 restated: £153,861k). See note 27.

**Level 2** – includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

- Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

This category includes listed corporate bonds, commercial paper, certificates of deposit, non-participating investment contracts, third party investments in consolidated funds and derivative instruments that are not exchange traded.

At 30 June 2022 the Company had £30,165k of financial assets at fair value through profit and loss (note 14d) that fell under Level 2 (2021: £49,347k).

**Level 3** – includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instruments' valuation) cannot be based on observable market data.

At 30 June 2022 the Company had no assets or liabilities that fell under Level 3 (2021: £nil).

**(e) Liquidity or funding risk**

Liquidity risk is the risk that the Company, although solvent, does not have sufficient liquid financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company sets the acceptable level of liquidity risk through the Liquidity Risk Policy. The main features of the policy are:

- Liquidity risk is only incurred in the pursuit of the Company's corporate and financial objectives, and in particular its investment objectives;
- Limits on the volume of financial assets held which are both not quoted and not regularly traded on a recognised exchange;
- Limits on the volume of non-cash investments; and
- Establishing contingency funding plans to ensure adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

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The following table analyses the Company's financial and insurance liabilities into relevant maturity groupings.

	<b>Maturity profile of financial and insurance liabilities</b>			
	<b>Total</b>	<b>&lt; 1 year</b>	<b>1 – 5 years</b>	<b>&gt; 5 years</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 30 June 2022</b>				
Insurance contract liabilities	366,909	365,327	1,582	—
Creditors arising out of reinsurance contracts	83,037	83,037	—	—
Unsubordinated loan payable	—	—	—	—
Subordinated loan payable	—	—	—	—
Other liabilities	15,234	15,234	—	—
<b>Total</b>	<b>465,180</b>	<b>463,597</b>	<b>1,582</b>	<b>—</b>
<b>At 30 June 2021</b>				
Insurance contract liabilities	331,740	331,740	—	—
Creditors arising out of reinsurance contracts	67,253	67,253	—	—
Unsubordinated loan payable	12,986	—	12,986	—
Subordinated loans payable	6,790	—	—	6,790
Other liabilities	34,479	34,479	—	—
<b>Total</b>	<b>453,248</b>	<b>433,472</b>	<b>12,986</b>	<b>6,790</b>

**(f) Market risk**

Market risk is the risk that as a result of market movements the Company may be exposed to fluctuations in the value of its assets, in the amount of its liabilities or the income from its assets. Sources of general market risk include movements in interest rates, equities and foreign exchange rates.

The Company sets the acceptable level of market risk through the market risk policy. The main features of the policy are:

- Market risk is only incurred in the pursuit of the Company's corporate and financial objectives, in particular, its investment objectives;
- Asset allocation and portfolio limit structures are established for each asset class; and
- Aggregate exposure limits that are in line with the regulatory requirements.

The following table illustrates the impact on the profit before tax and shareholders' equity of a change in market interest rates.

		<b>Impact on profit after tax and shareholders equity</b>	
		Corporation tax rate 19% (2021: 19%)	
		£'000	
		<b>Interest rate movement</b>	
		2% (2021: 1%)	-1%
<b>At 30 June 2022</b>		<b>3,527</b>	<b>(1,763)</b>
<b>At 30 June 2021</b>		<b>1,602</b>	<b>(1,602)</b>

The Company has an immaterial exposure to foreign exchange risk.

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**(g) Operational risk**

Operational risk is defined as the risk of loss, or adverse consequences for the business, resulting from inadequate or failed internal processes, people and systems, or from external events. The Company sets an acceptable level of operational risk through the operational risk policy. The policy also requires compliance with applicable legislation and regulations.

A strategy to control the operational risk exposures identified is based on a combination of one or all of the following: modify operations such that there is no exposure to the risk; accept exposure to the risk and choose not to control the risk; or accept exposure to the risk and control the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented is based on, amongst other things the:

- Potential cause and impact of the risk;
- Likelihood of the risk happening in the absence of any controls;
- Ease with which the risk could be insured against;
- Cost of implementing controls to reduce the likelihood of the risk occurring; and
- Operational risk appetite.

**(h) Capital management**

As the Company writes insurance business it is regulated by both the PRA and FCA. The Company is subject to the UK Solvency II regime, which is an insurance regulatory regime which prescribes capital requirement and asset / liability valuation standards for assessing regulatory solvency. The Company has processes to regularly measure and report its capital requirements as well as the availability of capital over this level. All requirements have been met for the years ended 30 June 2022 and 2021.

***Policies and objectives***

The purpose of the capital management policy is to set out how capital should be managed within the Vitality UK Group of companies. The goal of the policy is to manage the risks associated with solvency capital and funding in line with each company's risk appetite. The policy describes and defines the associated risks in the context of each company and how these risks could materialise and impact the business. Further it outlines the relevant risk principles and appetites, and describes the minimum standards each company in the group should implement to manage the risks within appetite. The objective of the policy is efficient deployment of capital to entities within the group while optimising risk adjusted returns, reducing the cost of capital and maximising expected earnings while (i) keeping within the stated risk appetites, (ii) meeting regulatory requirements and regulators' expectations, (iii) allowing for investment and reinsurance strategies, and (iv) having regard to the consolidated group solvency requirements.

Compliance with the policy is assessed at least annually while the policy is reviewed at least every two years. Alongside ensuring the Company complies with the required level of capital, the Company also seeks to foster an environment of regulatory compliance within the group's culture, strategy and decision making; continually develop and enhance the group's regulatory compliance capability; actively communicate the effectiveness and benefits of compliance management to all stakeholders; and be able to provide reasonable and independent assurance to senior management, the Board and regulators.

The risk of climate change impacting insurance claims is considered to be relatively limited, with the Company able to reprice contracts at both inception and renewal or to share risk with reinsurers. There is minimal exposure to climate risk from the Company's invested assets (primarily cash, short-term liquidity funds, and short to medium term investment grade bonds predominantly invested in financial services). The Company recognises that there are operational and expense risks relating to the implementation of its own and its suppliers' climate and sustainability strategies, and risks relating to new regulations or taxes in this area. It further recognises the reputational, business and strategic risks of not updating its own business model to actively reduce and minimise its impact on the environment.



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The Vitality Group's Board takes an active interest in ensuring the potential impact from climate change is properly assessed and managed within the business. The risks are monitored and assessed on an ongoing basis as part of the implementation of Vitality's Group Enterprise Risk Management

The Company determines its Solvency Capital Requirement (SCR) using the standard formula set out under Solvency II. It must, at all times, hold sufficient capital to meet or exceed the SCR. In addition, the Board of Directors of the Company has set a risk appetite statement in order to maintain a certain amount of surplus capital in excess of these requirements in order to absorb changes in both the level of capital and the SCR. The risk appetite is set to safeguard the interests of its policyholders, having regard to the nature and risk of the insurance contracts underwritten, while providing a satisfactory return to shareholders. As part of the Company's regular risk monitoring and capital management processes the level of surplus is regularly assessed with actions taken to secure additional capital should the level fall close to the risk appetite.

***Measuring and monitoring of capital***

The actual and projected capital position of the Company is monitored on a regular basis through a number of forums and governance committees including the Board of Directors as well as through the Company's own risk and solvency assessment (ORSA) process. In the event that sufficient capital is not projected to be available, actions would be taken to obtain additional capital or to reduce the amount of risk accepted and therefore reduce the capital requirement through, for example, changing the reinsurance or investment strategy.

As at 30 June 2022 the Company disclosed regulatory capital of £180,977k (2021: £180,710k) in accordance with Solvency II. The highest capital requirement the Company was subject to at 30 June 2022 was the Solvency Capital Requirement ("SCR") (2021: SCR) which prescribed a capital requirement of £117,165k (2021: £106,797k). On this basis capital coverage was therefore 154.5% of the SCR (2021: 169.2% of the SCR).

The Company has complied with all externally imposed capital requirements to which it was subject throughout the year.

**5. Revenue**

There is only one class of business, that of accident and health general insurance. During the financial year ended 30 June 2022 and 2021, the Company had no activities outside the United Kingdom, and accordingly, no geographic split of information is disclosed in respect of gross written premiums.

The Company owns an office building, including the land the building is situated on, and as a result generates non-insurance rental and service charge revenue, the majority of which is generated from Vitality Corporate Services Limited ("VCSL"), a fellow Group company within VitalityHealth. This is shown as other income in the statement of comprehensive income. See note 8.

**6. Accelerated reinsurance repayments**

The Company uses quota share reinsurance treaties as one of the mechanisms to manage initial acquisition cost strain, using reinsurance-based financing to spread initial acquisition costs over multiple policy years to better reflect the economics of the product. During the financial year ended 30 June 2021 repayments on these existing reinsurance contracts were accelerated, reducing net earned premiums for the prior financial year and consequently reducing repayment obligations in the years ended 30 June 2022 and 30 June 2023. The strategic rationale for this is set out below.

The COVID-19 pandemic resulted in a temporary reduction in claims ratios for the Company for each of the financial years ending 30 June 2021 and 2020 compared to pre-pandemic levels, as ongoing national lockdowns changed both provider and policyholder behaviour. Whilst some treatments were delayed essential and urgent care continued uninterrupted throughout, such as treatments for cancer. At 30 June 2021, it was anticipated that claims ratios would be higher than pre-pandemic levels during the financial year ended 30 June 2022 and 2023 as a result of a catch up of delayed treatments, combined with increased severity of conditions due to those delays and the impact of the pandemic on premiums.

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The Company had recognised reserves as permitted by IFRS at 30 June 2021. However, as a short-term insurer, the Company was constrained in its ability to set aside reserves for the impact of the pandemic that was expected to arise in future renewal periods beyond the 12-month contract boundary.

To protect against the expected increase in claims ratio in subsequent financial years, the Company amended a number of its existing quota share reinsurance treaties to adjust the repayment profile in June 2021. This increased the repayments in the financial year ended 30 June 2021 by £39.7m. As expected, the treaty amendments have reduced the current year ceded premiums by £19.8m in the year ended 30 June 2022 with the same amount of reduction expected in the next financial year. The amendments only affect the re-phasing of the repayments between the years but with no net impact in total over the 3 financial years.

The additional repayments in the prior financial year were recognised as additional premiums ceded to reinsurers. The impact of accelerated reinsurance payments is summarised as follows:

	Year ended 30 June	
	2022	2021
	£'000	£'000
Gross earned premiums	557,185	534,132
Earned premiums ceded to reinsurers (excl. acceleration)	(76,700)	(88,633)
Accelerated earned premiums ceded to reinsurers	—	(39,723)
<b>Net earned premiums</b>	<b>480,485</b>	<b>405,776</b>

**7. Interest revenue**

	Year ended 30 June	
	2022	2021
	£'000	£'000
<b>Interest revenue</b>		
Cash and cash equivalents	1,956	46
<b>Total interest revenue</b>	<b>1,956</b>	<b>46</b>

**8. Other income and expenses**

	Year ended 30 June	
	2022	2021
	£'000	£'000
Rental and service charge revenue	1,145	1,184
Other income	93	99
<b>Total other income</b>	<b>1,238</b>	<b>1,283</b>

Rental and service charge revenue relates to the Company's ownership of an office building in Stockport. See note 16. During the financial year ended 30 June 2022 the Company incurred £343k (2021: £438k) in service charge expenses related to the building.

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**9. Acquisition costs and administrative expenses**

**(a) Acquisition costs**

	Note	Year ended 30 June	
		2022	2021
		£'000	£'000
Amortisation of deferred acquisition costs	17	84,845	76,371
<b>Total acquisition costs</b>		<b>84,845</b>	<b>76,371</b>

**(b) Administrative expenses**

	Year ended 30 June	
	2022	2021
	£'000	£'000
Administrative expenses, including recharged expenses	164,874	139,422
<b>Total administrative expenses</b>	<b>164,874</b>	<b>139,422</b>

Vitality Corporate Services Limited ("VCSL") incurs the overall audit and non-audit fees on behalf of the Vitality Group and recharges them to the other Group companies. Included in the recharged expenses above for the financial year ended 30 June 2022 is £426k (2021: £210k) of fees payable to the Company's auditors for the audit of the Company's financial statements and £120k (2021: £92k) in relation to the audit of regulatory returns.

**(c) Staff costs**

VCSL provides management services to the Company including the recharge of expenses incurred on its behalf. All staff costs incurred by VCSL in respect of the Company's products are allocated and recharged between Group companies. For the year ended 30 June 2022 VCSL recharged staff costs and other employee related costs of £108,803k (2021: £95,707k) to the Company. Details of these staff costs and other employee related costs can be found in the financial statements of VCSL, and can be requested from its registered office 3 More London Riverside, London, SE1 2AQ.

**10. Finance costs**

	Note	Year ended 30 June	
		2022	2021
		£'000	£'000
Interest paid on subordinated loan	23	190	578
Interest paid on unsubordinated loan	23	241	198
Reinsurance treaty fees		1,933	2,073
<b>Total finance costs</b>		<b>2,364</b>	<b>2,849</b>

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11. Tax expense

	Year ended 30 June	
	2022	2021
	£'000	£'000
<b>(a) Current year tax expense</b>		
Current tax:		
Current year tax expense	—	(3,262)
Group relief payable	(11,311)	—
Adjustment in respect of prior years	(32)	19
	<b>(11,343)</b>	<b>(3,243)</b>
Deferred tax:		
Deferred tax expense	(950)	(4,214)
Adjustment in respect of prior years	35	(19)
Effect of tax rate change	662	1,958
	<b>(253)</b>	<b>(2,275)</b>
<b>Total tax expense</b>	<b>(11,596)</b>	<b>(5,518)</b>

The tax assessed for the financial year ended 30 June 2022 is lower (2021: lower) than the standard rate of corporation tax in the United Kingdom of 19% (2021: 19%). The difference is explained below:

	Year ended 30 June	
	2022	2021
	£'000	£'000
<b>(b) Reconciliation of tax</b>		
Profit before tax	64,340	39,149
Tax at 19% (2021: 19%)	(12,225)	(7,439)
Effects of:		
Property, plant and equipment differences	(36)	(37)
Group relief claimed for payment	11,283	—
Group relief payment	(11,283)	—
Re-measurement of deferred tax for changes in tax rates	662	1,958
Adjustment in respect of prior years	3	—
<b>Total tax expense</b>	<b>(11,596)</b>	<b>(5,518)</b>

During the financial year ended 30 June 2022 the Company made £4,621k (2021: £2,878k) in corporation tax instalments for the 2021/2022 tax year.

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**12. Deferred tax asset**

	As at and year ended 30 June	
	2022	2021
	£'000	£'000
<b>Deferred tax asset comprises:</b>		
Property, plant and equipment temporary differences	(34)	(32)
Accumulated losses	15,646	15,897
<b>Deferred tax asset at the end of the year</b>	<b>15,612</b>	<b>15,865</b>
<b>Movement in deferred tax asset comprises:</b>		
At the beginning of the year	15,865	18,140
Amounts charged in the statement of comprehensive income	(253)	(2,275)
<b>Deferred tax asset at the end of the year</b>	<b>15,612</b>	<b>15,865</b>

The full potential deferred tax asset from unrelieved losses that the Company could recognise is £15,646k (2021: £15,865k) which has been fully recognised as at 30 June 2022 and 2021, respectively. The full recognition reflects the continued profits of the business within the year and future forecasted profits and hence a greater ability to utilise these losses across future years.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was enacted on 10 June 2021. As this change was enacted as at the balance sheet date, its effects are included in these financial statements.

On 23 September 2022, The UK Chancellor of the Exchequer announced that the intended increase in the UK corporate tax rate to 25% from April 2023 referred to above will be cancelled. This change has not been substantively enacted as at the date of these accounts, and so is not reflected in the company's balance sheet. The impact of this change is not expected to be material to these accounts.

The recognition of a deferred tax asset is subject to a degree of estimation and judgement. The level of deferred tax asset recognised in the statement of financial position is determined with reference to the expected future taxable profits of the Company. The Company makes use of all available evidence when determining the future taxable profits. This evidence includes medium term business plans approved by the directors of the Company and discounted cash flow projections of the profits that are expected to emerge from the insurance policies underwritten by the Company. In assessing the availability and quantum of future profits the Company applies probability factors to determine a range of probable outcomes. The Company then applies judgement to conclude on where within this range the deferred tax asset is set.

The primary underlying uncertainties that may impact the level of deferred tax asset recovered are:

- The loss ratio (incurred claims divided by earned premiums) of the Company in the future;
- The lapse rate of policies underwritten by the Company in the future; and
- The volume of new business sold and underwritten by the Company in the future.

Management has considered sensitivities on the projection of future profits supporting the deferred tax asset but those sensitivities have no impact on the full recognition of the deferred tax asset.

There are no other estimates or assumptions that the directors believe have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities with the next financial year.

**13. Directors emoluments**

The directors are employed by VCSL and by companies in the Discovery Limited group. There are no members of key management other than the executive directors. Other than as described below, no director has received any emoluments or other benefits from the Company.

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The remuneration disclosed below represents the amounts recharged by VCSL in respect of the services provided by the directors to the Company.

	Year ended 30 June	
	2022	2021
	£'000	£'000
Aggregate emoluments in respect of qualifying services	2,628	1,881
Compensation for loss of office	275	—
Aggregate pension contributions to money purchase schemes	10	7
Aggregate amounts receivable under the Long Term Incentive Plan	786	286
<b>Total</b>	<b>3,699</b>	<b>2,174</b>

	Year ended 30 June	
	2022	2021
	£'000	£'000
<b>Details of highest paid director</b>		
Aggregate emoluments in respect of qualifying services	1,007	534
Aggregate pension contributions to money purchase schemes	2	1
Aggregate amounts receivable under the Long Term Incentive Plan	273	116
<b>Total</b>	<b>1,282</b>	<b>651</b>

The remuneration shown above is in respect of 15 directors (2021: 13 directors), 13 being VHL directors and 2 being DHEL directors. Five directors are participating in the Long Term Incentive Scheme (2021: 3).

**14. Financial assets and financial liabilities**

The Company holds the following financial instruments:

		As at 30 June	
		2022	2021
			restated*
Financial assets	Note	£'000	£'000
Financial assets at amortised cost			
Cash and cash equivalents	14a	39,437	36,607
Other financial assets	14b	918	515
Financial assets at fair value through profit or loss (FVPL)			
Cash and cash equivalents	14c	125,965	153,862
Other financial assets	14d	30,165	49,347
<b>Total financial assets</b>		<b>196,486</b>	<b>240,331</b>

\* See note 27.

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		As at 30 June	
		2022 £'000	2021 £'000
<b>Financial liabilities</b>	<b>Note</b>		
Financial liabilities at amortised cost			
Subordinated loan	23	—	6,790
Unsubordinated loan	23	—	12,986
Other liabilities	21	15,233	15,587
<b>Total financial liabilities</b>		<b>15,233</b>	<b>35,363</b>

The Company's exposure to various risks associated with financial instruments is discussed in note 4. The maximum exposure to credit risk at the end of the financial year end is the carrying amount of each class of financial assets mentioned above. The Company has performed an assessment of expected credit losses on cash and cash equivalents and financial assets held at amortised cost in accordance with the accounting policy 1.2d and determined that no credit losses were required to be recorded as they were immaterial.

**(a) Financial assets at amortised cost - cash and cash equivalents**

These amounts represent money at call and short notice.

Some balances are subject to a variable interest rate. The average effective interest earned of 0.24% (2021: 0.00%).

**(b) Financial assets at amortised cost - other financial assets**

Other financial assets at amortised cost principally represent amounts owing to the Company in relation to the Company's ownership of the Stockport office building. See note 16.

**(c) Financial assets at fair value through profit and loss (FVPL) - cash and cash equivalents**

These amounts represent highly liquid investments.

Some balances are subject to a variable interest rate. The average effective interest earned of 0.22% (2021: 0.03%).

**(d) Financial assets at fair value through profit or loss (FVPL) - other financial assets**

These amounts represent debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income, specifically investments in diversified portfolios of sterling denominated corporate bonds.

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**15. Non-financial assets and non-financial liabilities**

The Company holds the following non-financial assets and non-financial liabilities:

		As at 30 June	
		2022	2021
Non-financial assets	Note	£'000	£'000
Debtors arising out of reinsurance operations	18a	198,538	155,973
Amounts receivable on direct insurance business	19	285,950	246,752
Deferred tax asset	12	15,612	15,865
Property, plant and equipment	16	9,034	9,251
Deferred acquisition costs	17	49,035	41,863
Current income tax asset		5,454	—
Other assets		231	194
<b>Total non-financial assets</b>		<b>563,854</b>	<b>469,898</b>

		As at 30 June	
		2022	2021
Non-financial liabilities	Note	£'000	£'000
Creditors arising out of reinsurance operations	18a	83,037	67,253
Deferred revenue		1	276
Insurance premium tax		21,031	18,616
Current income tax liability		—	230
<b>Total non-financial liabilities</b>		<b>104,069</b>	<b>86,375</b>



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16. Property, plant and equipment

	Land £'000	Building £'000	Total £'000
<b>Cost</b>			
At 1 July 2020	1,122	8,677	9,799
At 30 June 2021	1,122	8,677	9,799
At 30 June 2022	1,122	8,677	9,799
<b>Accumulated Depreciation</b>			
At 1 July 2020	—	(331)	(331)
Depreciation charge for the year	—	(217)	(217)
At 30 June 2021	—	(548)	(548)
Depreciation charge for the year	—	(217)	(217)
At 30 June 2022	—	(765)	(765)
<b>Net book amount at 30 June 2021</b>	<b>1,122</b>	<b>8,129</b>	<b>9,251</b>
<b>Net book amount at 30 June 2022</b>	<b>1,122</b>	<b>7,912</b>	<b>9,034</b>

The Company owns an office building including the land it is situated on. VCSL is the principal tenant of the building. There are no accumulated impairment losses.

17. Deferred acquisition costs

		Year ended 30 June	
	Note	2022 £'000	2021 £'000
At the beginning of the year		41,863	42,491
Costs deferred in the year		92,017	75,743
Costs amortised in the year	9a	(84,845)	(76,371)
<b>At the end of the year</b>		<b>49,035</b>	<b>41,863</b>

The amount of deferred acquisition costs expected to be recovered after more than twelve months is £nil (2021: £194k).

As described in note 3.1 the earnings pattern for premiums written and related commission has been amended due to the impact of COVID-19.

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**18. Reinsurance assets and liabilities**

(a) Reinsurance liabilities – reinsurers share of insurance contract assets

	Reinsurers' share written premiums £'000	Reinsurance recoveries £'000	Cashless treaty fees £'000	Reinsurance income £'000	Total net assets arising out of reinsurance operations £'000
At 1 July 2020	(78,234)	(6,281)	(491)	175,842	90,836
Reinsurance movement during the year	(110,261)	63,729	2,073	44,000	(459)
Amounts settled during the year	128,257	(64,146)	(1,889)	(63,869)	(1,647)
At 30 June 2021 and 1 July 2021	(60,238)	(6,698)	(307)	155,973	88,730
Reinsurance movement during the year	(90,041)	65,090	1,933	51,400	28,382
Amounts settled during the year	76,856	(67,558)	(2,094)	(8,835)	(1,631)
At 30 June 2022	(73,423)	(9,166)	(468)	198,538	115,481

The amount of net insurance assets expected to be settled after more than one year is £nil (2021: £nil). The table above excludes debtors of £20k (2021: debtors of £10k) in respect of proportional reinsurance treaties on non-health insurance products with a reinsurers' share of written premiums of £40k (2021: £67k) and reinsurance recoveries of £89k (2021: £128k). Acquisition costs are partially financed through reinsurance. This financing meets the definition of reinsurance due to the transfer of lapse risk and reinsurers' share of claims.

(b) Reinsurances assets – reinsurers share of insurance contract liabilities

	Reinsurers share of unearned premium reserve £'000	Reinsurers share of claims outstanding £'000	Total reinsurers share of insurance contract liabilities £'000
At 1 July 2020	78,169	7,914	86,083
Reinsurance movement during the year	(18,028)	611	(17,417)
At 30 June 2021 and 1 July 2021	60,141	8,525	68,666
Reinsurance movement during the year	13,381	1,986	15,367
At 30 June 2022	73,522	10,511	84,033

**19. Insurance and reinsurance receivables**

	As at 30 June	
	2022 £'000	2021 £'000
Due from policyholders	285,950	246,752
Due from reinsurers	198,538	155,973
<b>Total insurance receivables</b>	<b>484,488</b>	<b>402,725</b>

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**20. Equity**

	30 June 2022 Number of Shares	30 June 2022 £'000	30 June 2021 Number of Shares	30 June 2021 £'000
<b>Ordinary shares</b>				
<i>Authorised</i>				
Ordinary shares of £1 each	No Maximum	No Maximum	No Maximum	No Maximum
<i>Called up, issued and fully paid</i>				
Ordinary shares of £1 each	4,012,500	4,012	4,012,500	4,012
<b>Total</b>	<b>4,012,500</b>	<b>4,012</b>	<b>4,012,500</b>	<b>4,012</b>
<b>Share premium arising on:</b>				
Ordinary shares	4,012,500	317,238	4,012,500	397,238
<b>Total</b>	<b>4,012,500</b>	<b>317,238</b>	<b>4,012,500</b>	<b>397,238</b>

The Company did not issue any ordinary shares during the current or prior year.

Share premium reserve is used to record the premium received on issue of shares. The reserve is utilised in accordance with the relevant provisions of the Companies Act, 2006.

Retained earnings comprises of prior and current year's undistributed profits after tax.

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

At the end of the 30 June 2021 financial year the Company had an accumulated deficit of £(75,833)k as part of the total equity balance in the Statement of Financial Position. Profit after tax of £52,744k for the year ended 30 June 2022 combined with a capital reduction of £80,000k effective 10 June 2022, recorded as a reduction in share premium and an increase to retained earnings, partially offset by a dividend paid of £20,000k to Vitality Health Insurance Limited, resulted in retained earnings of £36,911k as at 30 June 2022.

**21 Other liabilities**

	As at 30 June	
	2022	2021
	£'000	£'000
Amounts owed to related parties	8,941	8,943
Trade creditors	5,484	5,837
Insurance premium tax	21,031	18,616
Deferred revenue	1	276
Other creditors	808	807
<b>Total other liabilities</b>	<b>36,265</b>	<b>34,479</b>

All other liabilities are expected to be settled within twelve months. The carrying amounts of the financial liabilities included in the above table reasonably approximates their fair values at the statement of financial position dates.

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**22. Insurance contract liabilities**

	As at 30 June 2022			As at 30 June 2021		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£'000	£'000	£'000	£'000	£'000	£'000
<i>General insurance contracts</i>						
Claims handling provision	659	—	659	600	—	600
Claims outstanding	45,213	(10,511)	34,702	41,652	(8,525)	33,127
Unearned premiums	321,037	(73,522)	247,514	289,488	(60,141)	229,347
<b>Total</b>	<b>366,909</b>	<b>(84,033)</b>	<b>282,875</b>	<b>331,740</b>	<b>(68,666)</b>	<b>263,074</b>

Movement in gross claims outstanding are as follows:

	As at 30 June	
	2022	2021
	£'000	£'000
Claims outstanding opening	41,652	34,296
Paid in the year	14,220	17,848
Reserve release for prior year	(10,659)	(10,492)
<b>Claims outstanding closing</b>	<b>45,213</b>	<b>41,652</b>

**(a) Assumptions**

The outstanding claims reserve method used continues to be driven by a frequency and severity model with adjustments made to allow for any delays in treatments witnessed compared to historical experience. The outstanding claims reserve has two distinct components: the first is in respect of private medical insurance and associated policies; the second is in respect of the closed book of other protection policies written on annually renewable terms.

**Private medical insurance and associated policies**

The Company uses a frequency and severity approach for the most recent treatment months in order to estimate the ultimate cost of claims with other methods used to validate the recommended result.

This method looks at the expected treatment timeline and cost for each authorised claim and recommends the reserve by accident month as the difference between that paid and that which is expected. This model assumes that claims with the same international classification of disease codes will follow similar timelines to resolution with similar costs. Adjustments are made by accident month to allow for the delays in treatments witnessed compared to historical experience as well as any associated catch-up of previously delayed treatments. For older treatment months traditional chain ladder methods are used.

The calculated figure represents the reserve in respect of both reported and not yet reported claim events. The calculated reserve is considered in light of other factors, such as changes in claims processes, any backlogs of invoices, or uncertainties in the external claims environment. Comparisons are also made with other benchmark figures such as the outputs from chain-ladder models and Bornheutter-Ferguson methods. Adjustments are made to the calculated reserve as necessary to reflect changes in severity, frequency and timing of treatments.

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**Other protection policies**

This closed book consists of Income Protection, Critical Illness and Long Term Care policies, written on annually renewable terms. Reserves are calculated separately for each of these product groups, taking into account reinsurance arrangements. Reported Income Protection claims are valued using capitalisation factors depending on the severity of a claim and unexpired duration to retirement. An additional amount, based on the amount of business in force, is held in respect of unreported claims.

**Accident year – Gross**

	12 months ended 30 June 2017 £'000	12 months ended 30 June 2018 £'000	12 months ended 30 June 2019 £'000	12 months ended 30 June 2020 £'000	12 months ended 30 June 2021 £'000	12 months ended 30 June 2022 £'000	Total £'000
Estimate of ultimate claims costs:							
– at end of accident year	259,472	241,822	263,369	253,248	278,751	306,135	
– one year later	247,448	232,516	257,105	237,178	262,537		
– two years later	247,423	232,669	257,129	236,887			
– three years later	247,523	232,684	257,110				
– four years later	247,539	232,673					
– five years later	247,538						
Current estimate of ultimate claims	247,538	232,673	257,110	236,887	262,537	306,135	
Cumulative payments to date	247,534	232,662	257,040	236,431	261,657	262,642	
Liability recognised in the statement of financial position	4	11	70	456	880	43,493	44,914
Liability in respect of prior years							299
Total liability recognised in the statement of financial position							45,213

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**Accident year – Net**

	12 months ended 30 June 2017 £'000	12 months ended 30 June 2018 £'000	12 months ended 30 June 2019 £'000	12 months ended 30 June 2020 £'000	12 months ended 30 June 2021 £'000	12 months ended 30 June 2022 £'000	Total £'000
Estimate of ultimate claims costs:							
– at end of accident year	195,912	185,368	202,301	191,917	210,963	235,558	
– one year later	184,077	178,135	197,517	179,251	198,140		
– two years later	184,002	178,322	197,473	179,012			
– three years later	184,121	178,320	197,456				
– four years later	184,142	178,309					
– five years later	184,141						
Current estimate of ultimate claims	184,141	178,309	197,456	179,012	198,140	235,558	
Cumulative payments to date	184,137	178,300	197,395	178,646	197,444	202,141	
Liability recognised in the statement of financial position	4	9	61	366	696	33,417	34,553
Liability in respect of prior years							149
Total liability recognised in the statement of financial position							34,702

**(c) Analysis of movements in unearned premiums**

	As at 30 June 2022			As at 30 June 2021		
	Gross £'000	Reinsurers' Share £'000	Net £'000	Gross £'000	Reinsurers' Share £'000	Net £'000
At the beginning of the year	289,488	(60,141)	229,347	326,076	(78,169)	247,907
Premiums written in the year	588,734	(90,081)	498,653	497,544	(110,328)	387,216
Premiums earned in the year	(557,185)	76,700	(480,485)	(534,132)	128,356	(405,776)
At the end of the year	321,037	(73,522)	247,515	289,488	(60,141)	229,347

**23. Loans payable**

An unsubordinated loan of £12,986k was provided to the Company by Vitality Health Insurance Limited at 30 June 2021. The unsubordinated loan was previously three subordinated loans totalling £12,788k which were converted to one subordinated loan on 31 December 2020. On 31 January 2022 the unsubordinated loan, including accrued interest, was repaid in full to Vitality Health Insurance Limited. The loan accrued interest at a floating rate of 300 basis points over The Bank of England base rate. The amortised cost approximated fair value at 30 June 2021.

A subordinated loan of £6,790k was provided to the Company by Discovery Holdings Europe Limited at 30 June 2021. On 31 January 2022 the subordinated loan, including accrued interest, was repaid in full to Discovery Holdings Europe Limited. The loan accrued interest at a floating rate of 465 basis points above 3 month GBP LIBOR. The amortised cost approximated fair value at 30 June 2021.

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24. Movement in operating assets and liabilities

		Year ended 30 June	
	Note	2022 £'000	2021 £'000
<b>Increase in operating assets:</b>			
Acquisition costs deferred in the year	17	(92,017)	(75,743)
Amounts receivable on direct insurance business		(39,198)	16,968
Debtors arising out of reinsurance operations		(42,565)	19,869
Reinsurers share of insurance contract liabilities		(15,367)	17,417
Other assets		(37)	41
Financial assets at amortised cost		(403)	139
		<b>(189,587)</b>	<b>(21,309)</b>
<b>Increase / (decrease) in operating liabilities:</b>			
Insurance contract liabilities		35,169	(29,123)
Creditors arising out of reinsurance operations		15,784	(17,768)
Other liabilities		1,786	(23)
		<b>52,739</b>	<b>(46,914)</b>
<b>Net movement in operating assets and liabilities</b>			
		<b>(136,848)</b>	<b>(68,223)</b>

25. Related party transactions

	As at and year ended 30 June 2022			
	Sales to: £'000	Purchases from: £'000	Amounts owed to: £'000	Amounts owed from: £'000
Immediate parent company	—	241	—	—
Other Vitality Group companies	787	206,871	8,941	—
Other related parties	4	—	—	—
	<b>791</b>	<b>207,112</b>	<b>8,941</b>	<b>—</b>

	As at and year ended 30 June 2021			
	Sales to: £'000	Purchases from: £'000	Amounts owed to: £'000	Amounts owed from: £'000
Immediate parent company	—	457	12,986	—
Other Vitality Group companies	455	171,002	15,733	242
Other related parties	7	—	—	—
	<b>462</b>	<b>171,459</b>	<b>28,719</b>	<b>242</b>

Amounts shown as purchases from Other Vitality Group companies primarily relate to intercompany recharges for services rendered.

Amounts owed to Other Vitality Group companies primarily relate to service charges outstanding with VCSL.

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Sales to Other Vitality Group companies represents rental and service charge revenue charged to VCSL.

All transactions between key management and the Company during the financial years ended 30 June 2022 and 2021 were on commercial terms which are equivalent to those available to all employees of the Company. At 30 June 2022 and 2021 there were no key management personnel.

**26. Parent and ultimate controlling party**

The immediate parent undertaking is Vitality Health Insurance Limited, a company incorporated in the United Kingdom. Vitality Health Insurance Limited is 100% (2021: 100%) owned by Vitality Life Limited, a company incorporated in the United Kingdom. Vitality Life Limited is 100% (2021: 100%) owned by Discovery Holdings Europe Limited which is 100% (2021: 100%) owned by Discovery Group Europe Limited.

The ultimate controlling party of Discovery Group Europe Limited is Discovery Limited, a company incorporated in the Republic of South Africa.

The ultimate controlling party of the Company and the smallest and largest group to consolidate these financial statements is Discovery Limited. The consolidated financial statements of Discovery Limited can be obtained from Discovery Limited, 1 Discovery Place, Sandton, PO Box 786722, South Africa.

**27. Prior year restatement of cash and cash equivalents - highly liquid investments**

The prior year note 14 for cash and cash equivalents of £190,469k has been restated to reclassify highly liquid investments of £153,862k which were previously presented as measured at amortised cost. These investments were measured at fair value through profit or loss but wrongly classified as measured at amortised cost in the note. The impact of this restatement is an increase in financial assets measured at FVPL and a decrease in financial assets measured at amortised cost in this note. Consequently upon this change, note 4 (d) has also been restated to include required disclosures in line with IFRS 7 and IFRS 13. There was no impact on the statement of financial position, statement of total comprehensive income, statement of changes in equity or statement of cash flows.